CHAPTER VI

THE CENTRAL FINANCING AGENCIES

The passing of the Indian Co-operative Societies Act, 1904 and the zealous efforts of the official and non-official workers tremendously accelerated the pace of organization of co-operative credit societies in villages in almost all the parts of the country. It was expected that these societies would be financed by local deposits from their area of operations supplemented by loans from the commercial banks and Government and from the urban credit societies.

In the initial stages of the movement the societies in Bengal received funds from the Registrar of Co-operative Societies who received deposits from the public and passed on to the societies; in Madras, they were financed to a great extent by the Central Urban Bank Limited, which transferred the deposits from the public to the societies in the form of loans; in Bombay, the Bombay Urban Co-operative Society and also the Bombay Central Co-operative Bank which was laterly in 1923 converted into the Bombay Provincial Co-operative Bank directly advanced loans to societies before the Central Banks came into existence. The Punjab was the only province where
primary societies could take pride in having successfully raised enough funds of their own from deposits and share capital to enable them to remain independent of any extraneous financial agency.

However, all these sources of finance fell short of the requirements of the rapidly increasing number of rural credit societies. Local deposits could not be attracted due to heavy indebtedness, the ingrained habit of hoarding and the lack of confidence of rural people in entrusting their savings to the village credit society. State aid in the form of concessions, grants and loans proved inadequate. Commercial banks did not take the risk of financing them due to their remoteness from the primary societies. The slow turnover of capital in agriculture and long period of investment did not suit the commercial banks for business. The credit societies' reliance on the personal security than on the real security and the vagaries of agricultural production were other factors that kept the commercial banks aloof from financing these societies. The difficulty of proper control over the management of rural credit societies and the risky nature of the business precluded them from employing funds in these societies. Finance was not the only problem for these societies. For the vigorous growth of the movement it was found necessary to evolve some effective system which may organize, develop, supervise, inspect, assist and guide the rural credit societies. A link was established by the organization
of guaranteeing unions, supervising unions and banking unions between the credit societies in rural areas and central banks at district centres. To co-ordinate the working of these central banks, as a further step, a bank at the provincial level was organized to complete the superstructure or the co-operative “pyramid” joining the remotest parts of the country with the organized money market. The Indian Co-operative Societies Act, 1912 was specially enacted for the organization of central societies to supervise and control the affairs of the rural credit societies, there being no provision in the Indian Co-operative Societies’ Act, 1904 for the same.

Guaranteeing Unions were organized as an experiment in Burma, the Punjab, C.P. and Borar, Bihar and Orissa and Bombay to serve as a buffer between the rural society and the remote central bank. For, it was difficult for the central bank to maintain a close contact with societies scattered all over the district and to acquire a detailed knowledge of its clients’ affairs. These unions, registered for a group of societies, operated over a small area within a radius of five miles and furnished a guarantee to the central banks for the repayment of loans of any defaulting societies affiliated to them. Their main object was not only to serve as a sympathetic and thorough supervising agency but also of guaranteeing whatever loans they might recommend as the result of their local knowledge and inspection. The Madlajaran Committee expressed their satisfaction regarding their organization and recommended the extension of the scheme.
These unions controlled affiliated societies by giving them representation on the management and by appointing a committee to check one another's general work to report any mismanagement for improvement. They appointed a secretary and a clerk to manage their affairs. Central banks used to appoint officers to assess their creditworthiness and examine their general affairs over and above making it obligatory upon them to submit periodical detailed statements of anticipated financial needs of affiliated societies.

The liability of a union was limited in accordance with its member's borrowings. The joint and unlimited liability of the members was enforceable to the full only after a defaulting society had been cancelled. If at the end of liquidation any deficit remained and the payment of such deficit or total amount of loans were guaranteed by the union, then only the other union societies were to make good the deficit in proportion to the degree of liability accepted by each one of them.

The system of guaranteeing unions failed because members' liabilities could be enforced only after liquidation of the society and the proceeds of the forced sale could not usually suffice to meet a society's own liabilities. Secondly, as the borrowing society had no voice in the sanction of the loan applied for and had to depend on the goodwill of member-societies,
naturally, the societies among themselves bargained regarding the approval of their loans in the committee. Thirdly, their restricted area of operations with a comparatively small number of affiliated societies could not yield sufficient income to enable them to employ competent and trained full-time staff to ensure efficient supervision. Lastly, the adoption of the sliding scales of liability based on the extent of borrowing by member-societies put the greatest burden on the weakest members who naturally had to borrow most.

The system was for the above reasons abandoned in most of the provinces or, as in Bombay and Madras was replaced by the supervising unions which did not promise any financial guarantee to the central banks and confined their activities primarily to the supervision of and guidance to the affiliated rural credit societies. Finance, supervision, inspection and in some cases even audit of co-operative societies — all these duties that the central banks were expected to carry out became increasingly difficult with the rapid increase in the number of such credit societies and some sort of decentralization of authority and responsibility was thought of to relieve these banks from the pressure of work. It is with this intention that supervising and banking unions were contemplated for organization as effective links between the central banks and the primary co-operative institutions.
The origin of some of the supervising unions in Madras dates back to 1910, that is, even before the Indian Co-operative Societies' Act, 1912 gave them any legal status. They were organized to relieve the government and central banks of supervision work for the rapidly increasing number of societies and their volume of business.

Supervising unions are not organized in all parts of the country. In 1949-50 there were no supervising unions in West Bengal, the Punjab, Assam, Orissa, Hyderabad and Mysore. In the same year, there were 259 such unions in Madras, 173 in Bombay, 42 in Travancore-Cochin and 13 in Coorg out of a total of 496 in the country.

The objects of supervising unions not only include the assistance and guidance to societies in regard to administration and finance but also the propagation of co-operative principles and practice among the members, organization of new societies, arranging for co-operative supply and marketing and generally developing better living, better farming and better business among the members of the affiliated societies.

1. Reserve Bank of India: Statistical statements relating to the Co-operative Movement in India for the year 1942-43, op cit., p.70.
Each supervising union maintains one or more supervisors to supervise and guide the affiliated societies. The members of the governing body of the supervising union who are representatives of affiliated societies frequently visit them. The arrangement of mutual supervision by affiliated societies themselves through their representatives in the union is well-conceived, conforms to the co-operative ideal of mutual help and is in line with the McGowan Committee's recommendation that the work of supervision should devolve on the primary societies themselves.

In recent years when the rural credit societies have taken to a number of non-credit activities such as the distribution of civil supplies and of agricultural implements, seeds, manure etc., marketing of agricultural produce, assistance to the Government in Grow More Food Campaign, Rural Development Schemes and Community Development projects, it is necessary that these unions should have less number of affiliated societies to work intensively and effectively in their area of operation. Under such circumstances therefore, a supervising union should not give affiliation to more than 25 societies and should have one supervisor for every group of 20 societies. According to the Madras Committee on Co-operation an ideal supervising union should consist of about 25 affiliated primary societies, all within a radius of seven miles so as to ensure local knowledge, though many unions in
the State have a larger area of operation. In 1949-50
a supervising union, on an average, had 42 affiliated
societies in Madras, 39 in Bombay, 25 in Coorg and 53 in
Travancore-Cochin; while a supervising staff member on
an average supervised and assisted 14 societies in Madras,
28 in Bombay, 20 in Coorg and 54 in Travancore Cochin.

The sources of income of these unions constitute
of the contributions from the central banks, contributory
fees of affiliated societies, registration fees of
delegates and subsidies from the Government.

The main functions of a supervising union are to
supervise affiliated societies and to recommend loans
applied for by the member-societies to the central bank.
Moreover, they assist central banks in the organisation
and development of societies, undertake inspection,
training and propaganda, rectify irregularities brought
to light by the supervisors and see that office-bearers do
not take undue advantage of their position in the util-
ization of funds available for grant of loans. In Madras,
supervising unions take interest in the promotion of
non-credit societies and have encouraged the growth of
co-operatives among shoe-makers, wood-cutters, cattle-
owners etc. and have helped Harijans to acquire house sites

1. Government of Madras: Report of the Committee on Co-
operation in Madras, 1940, loc cit, p.53.
2. Reserve Bank of India: Statistical Statements relating
to the Co-operative Movement in India, 1949-50, (1951),
loc cit, p.70 marked out.
on a co-operative basis. The supervising unions in Travancore-Cochin and Coorg work satisfactorily. In Baroda they helped thrift societies of women in the maintenance of their accounts, conducted a training class for members of affiliated societies and assisted them in the distribution of essential consumer goods.

In Madras under the scheme of re-organisation of rural credit societies the central banks have been requested to appoint additional staff of supervisors so that not more than 20 societies are entrusted to each supervisor and, the Government sanctioned a subsidy of Rs. 2.18 lakhs towards the cost of 249 additional supervisors during the year 1951-52. Under the present set-up, a supervising union in Bombay has one or two supervisors attached to it and its area of operations extends over a taluka, or two in case there are not sufficient affiliated societies. The supervisor usually minsters 8 to 10 societies per month so that within a quarter every society is inspected. After inspection, he sends his inspection memos to the societies concerned. At present, the cost of maintaining supervisors is borne by the State Government. These unions are working under the

guidance of District Supervision Committees and the latter under the Provincial Board of Supervision which approves the budgets of supervising unions and recommends distribution of grants to them.

The obstacles that come in the way of success of these unions are the lack of adequate funds to carry on efficient supervision with a well remunerated staff, internal dissensions and party factions, general dearth of disinterested and enthusiastic workers on the governing board, member-societies' lack of interest in the working of unions, ineffective control over supervisors and lack of missionary spirit among the supervisors. To improve the working of these unions a provision should be made to co-opt enthusiastic local leaders with experience and leisure for public work on the management because the success or failure of these unions, after all, depends upon the efficiency of supervisors and the presence of members on their managing boards. The representatives of only good societies should have a place on the management of each an union. An adequate remuneration and security of tenure should be provided for the staff by the formation of district cadres of supervisors. The area of operations should be restricted to a manageable size for effective supervision of affiliated societies. The members of the managing board should be persuaded to pay frequent visits to the affiliates. The supervising union should prepare an annual report on the working
of each affiliated society after a close check-up of cash-books and ledgers, ascertaining the proper use of loans and a scrutiny of repayments and examining the transactions of office-bearers in the grant of loans, commissions, etc. Much depends upon those who are at the helm of affairs, for, if union office-bearers themselves are defaulters, take benami loans and commission, do not live up to the confidence reposed in them by the central banks and the primary societies and if local gentlemen of outstanding personality and integrity do not come forward, the chances of survival and expansion of these unions are not bright. As the rural societies have, since the war, taken to a wide range of economic, social and business activities for the uplift of the common men, they are likely to be benefitted if they seek the active collaboration and guidance of supervising unions in these affairs. The unions can become centres for the dissemination of co-operative and general education both for the members of affiliated societies and for the people in rural areas. They can supply necessary information and local knowledge of societies to the central banks and assist them in the expansion and rectification of societies. They can bring together the representatives of rural societies at general meetings as frequently as possible to discuss problems of common interest and can act as a non-official agency in an advisory capacity to agriculturists and the affiliated societies in the successful implementation of Grow More Food Campaign, Rural Development Schemes and
even in Community Development Projects. Their working is satisfactory in Bombay and Madras States.

The organization of a banking union is usually necessitated where the central banks have wide area of operations and are unable to keep close contact with the affiliated societies for their finance, supervision, inspection, education and general management. The banking union whose main functions are to finance and supervise the primary credit societies forms an effective link between the central banks and the rural societies. Where local funds are not attracted by agricultural credit societies, they, within a reasonable distance of one another, federate into a central banking union to ease their financial stringency.

A banking union usually operates over a small area confined to a radius of not more than ten miles or, at the most, extends over a taluka. As far as possible it admits societies as members, though, however, some banking unions in the initial stages of their organization admit local leaders as shareholders on the condition that shares held by them are redeemable in course of time. Such a policy of redemption of shares held by individuals, though strictly co-operative in spirit, may lead either to laxity in direction and management or to excessive official interference if the local enthusiastic workers are excluded before the society representatives are fully competent to replace them. Madras, the Punjab and Baroda have had banking unions with both individuals
and societies as members since their very inception. Liability of members is limited and each member society has a number of votes in proportion to its members. Unfortunately, separate statistics for banking unions and their working are not available in the Reserve Bank's Statistical Statements. There were 46 banking unions in the Punjab at the end of 1948-49, 12 in U.P. in 1948, 3 in Bombay in 1946-47 and 8 in Pepsu in 1951-52.

A banking union usually serves the requirements of a taluka or its area of operation first, by financing the societies; secondly, it supervises their working; thirdly, it helps them in the training of personnel for co-operative work; fourthly, it assists them in the marketing of agricultural produce, supply of agricultural requirements and distribution of essential consumer goods and finally, in the propagation of the principles of co-operation. Due to its proximity to affiliated societies it has an advantage to be familiar with their needs and circumstances.

The sources of capital for banking unions are the deposits from the public, co-operative societies and associations and individuals. They raise capital by the issue of shares and in the form of cash credits from commercial banks and central co-operative banks. Their expenses are met from the aid granted by the central banks and from their profits. The affiliated societies have a predominant voice in the management of the banking union for, the managing board consists of member-societies' representatives.
Some banking unions, such as the Kodinar Banking union in Bombay (formerly of Baroda State) and the Punjawar Banking union in the Punjab have attained a great success in the co-operative field. The Kodinar Banking Union has apart from financing and supervising affiliated societies succeeded in popularizing many societies in the profitable disposal of their crops and in the purchase of their domestic requirements. It has assisted agriculturists by providing them with pure seeds and artificial manures and maintained a nursery for the supply of fruit-trees. From its activities, it may be said, spread the idea of organizing multi-purpose co-operative societies for the social and economic betterment of the areas served by co-operative rural institutions. It was this union that demonstrated how a banking union could set free idle rural capital for rural development.

The success of the Kodinar Banking Union has been due to the careful choice of suitable personnel, comprehensive solution of the problems of agriculturists and the insistence on self-help and the co-operative spirit throughout.


3. Reserve Bank of India: Report on the Banking Union at Kodinar, Baroda State, with suggestions about its applicability elsewhere (Reserve Bank of India, Agricultural Credit Department, Bombay, 1937, Bulletin No.1) from "Foreword" by J.A. Taylor.
The Punjawar Banking Union also worked most satisfactorily on similar lines and served the members of its affiliated societies in the variegated aspects of their lives. At its general meetings, it frequently preached the lessons of self-help and mutual help. It successfully curtailed ceremonial expenditure and brought social pressure on neighbouring villages to adopt rules of sanitation and hygiene. The experiments at Punjawar and Kodinar demonstrate that in a co-operative institution size is not the determining factor, that its real value to the locality resides less in the management of finances than in the educative influence it exerts on the people and in the local pride and enthusiasm which it arouses.

In Madras banking unions have not been much favoured. In Bombay as there are separate agencies for supervision and finance in the form of unions, diffusion of energy and waste of money are the result. Established central banks with a well-developed branch-banking system have been responsible for the very slow growth of banking union in the State.

Spectacular successes that have been achieved by banking unions at Kodinar and Punjawar are a formidable task to achieve at other places. The banking unions are held as a costly intervening agency between the central bank and the primaries in many parts of the country.

1. Reserve Bank of India; Co-operation in Punjawar, a village in the Una Tehsil of the Noshahar District, Punjab (Reserve Bank of India, Agricultural Credit Department, Bulletin No. 4, Bombay, 1939), p. 22
The greatest obstacle comes in the form of lack of funds from a limited area of operation which leads to the appointment of ill-remunerated and naturally, therefore, incompetent staff to manage the affairs effectively. Further, lack of adequate funds from local sources means greater borrowing from outside at higher interest rates and consequently dear credit supply to the ultimate borrower, which no one would welcome. However, if the people in rural areas endeavour with undying enthusiasm and perseverance for their socio-economic betterment by extending their active co-operation to the co-operative societies and the banking union operating in the area, size will not be a bar to their efficient working. With the growth of multipurpose societies, importance of banking unions will increase and the increase in the number of unions will not only promote the interests of the agriculturists but of the rural people in general. The system of the organisation of banking unions may be adopted in other States wherever possible with any modifications necessary to suit local conditions. These unions, should not however, have an independent existence but work as complementary to the central banks whose ultimate authority should prevail both over the unions and the societies to maintain a well-knit federal co-operative financial structure.

The Indian Co-operative Societies' Act, 1904 did not provide for the organisation of central societies. The rapid growth of the rural co-operative credit
institutions without sufficient funds of their own to run their management efficiently called for the organisation of some agency to finance, supervise and guide them in their affairs. Though there were organised special urban banks in some provinces to meet these requirements without any legal sanction behind them, their supply of finance to the primary co-operative institutions fell far short of the latter's requirement. This led to the enactment of the Indian Co-operative Societies' Act, 1912 providing for the organisation of financing and other unions to facilitate the objects of co-operative societies and to expand the co-operative movement.

Central banks form an important link in the financial structure of the co-operative movement. The objects of a central bank, according to by-laws, are to facilitate the operations of registered co-operative societies by financing them in the district or their area of operation and to carry on banking and credit business with such societies; to act as a balancing centre by taking off the surplus funds from rural societies in the slack season and supplying them capital during the busy season, to take funds from surplus societies to finance others who have little owned capital; to determine and supervise the credits and general affairs of member societies; to help them in the purchase and sale for common account of agricultural implements and produce; to provide for supervision, inspection and in some cases even auditing of these societies; to impart co-operative education to the members of affiliated societies and rural
People; to propagate the principles and practice of co-operation and to take such measures as may be necessary to improve the work and extend the usefulness of such societies. The funds of the central banks should be utilised in the acceleration of the growth of the movement and in spreading the knowledge of the benefits of co-operation.

The area of operations of a central bank usually ranges over a district with a number of branches scattered over in important towns of the district provided there are sufficient business avenues. Central banks in Bombay, Madras and Madhya Pradesh operate over comparatively larger areas while those in Bengal, Bihar, Orissa and the Punjab confine their activities to smaller areas. A central bank with a larger area of operations has the advantage of economy in overhead charges and in general economic administration. It secures more funds at reasonable rates of interest, facilities the building up of adequate reserves, permits the supply and employment of qualified and experienced personnel on the directorate, offers cheaper services to its constituents and modest dividends to members, exercises adequate control over credit policy and ensures adequate financial accommodation from commercial banks and the provincial co-operative bank.

Most of the central banks in India have a mixed membership, constituting not only of societies but also of individuals. However, there are pure, federal type of central banks in some States as in West Bengal, U.P., Punjab and Pepsu
with only societies as members and organised strictly on co-operative principles. To strengthen the qualified personnel on the management for efficient working, most central banks include individuals who have enthusiastically served the movement. In Madras, gradual elimination of individual shareholders from the constitution of central banks has been recommended by the Madras Committee on Co-operation. It must be seen that while making the membership of central banks strictly co-operative by the elimination of individual members, management of these banks does not suffer in over-enthusiasm for co-operative principles; gradualness will be a better way.

Section 4(1) of the Indian Co-operative Societies' Act 1912 provides that "the liability of a society of which a member is a registered society shall be limited" and this is quite in consonance with the fact that as a central society operates over a large area, unlimited liability will be a dangerous practice in the absence of thorough mutual acquaintance and knowledge of members of the central society. The liability of a member extends to the face value of the share/s or to a value thereof.

The principal source from which the working capital of central banks is derived are deposits from individuals, societies, central banks, Government and semi-government public institutions, from the share-capital, reserves and other funds, and borrowings from the provincial co-operative

bank and Government. In 1949-50, for the country as a whole, the working capital of central banks and banking unions (unfortunately, separate figures for the operations of central banks and banking unions are not available in the Statistical Statements relating to these banking agencies in the Reserve Bank publications) amounted to Rs. 4987.34 lakhs forming 21.7 per cent of the total working capital of all types of societies. In the same year, owned capital was only 16.2 per cent of central banks' working capital; share capital represented 7.1 per cent, reserve funds 6.45 per cent and other funds 2.85 per cent of the total working capital of these banks. This small percentage of share capital and reserves suggests the weak structure of the owned funds of these banks. Though the Maclagan Committee on Cooperation considered that the share-capital and the reserve of central banks should be at least 12.5 per cent of their total liabilities, it should not be forgotten that, under the dynamic trends of the movement in recent years when central banks are approached by affiliated societies for more and more funds to finance non-credit activities, the need for greater owned funds is imperative. The large owned funds mean relaxation of borrowing limits of central banks to finance the non-credit activities of their affiliated rural banks. Central banks in Mysore and Bhopal have built up sufficient funds of their own; owned capital there represents 98 and 71 per cent respectively of the working capital; while in Bengal, U.P., Pepsu, Assam, Ajmer and Hyderabad owned funds represent 25 to 45 per cent ranging;
in order of ascendancy to the total working capital. The share-capital and reserves are a sort of a guarantee fund for the outside borrowings of the bank, command the loyalty of the society members to the bank and afford a good basis for fixing the credit limit required for the proper functioning of the bank. Share-capital and reserves should be raised on co-operative principles to the largest possible extent consistent with the efficient working of the central banks for, after all, owned funds mean less dependence upon outside financial agencies with consequent independent internal management and conform to the basis co-operative principle of self-help. In recent years, some central banks, besides building up general reserves, create dividend and interest equalisation funds to avoid sudden disparities between succeeding dividends and fluctuations in interest rates; depreciation, building and special emergency reserves, bad and doubtful debts reserves etc., rather than distribute their profits in the shape of fat dividends as happened earlier to the Second World War.

In certain cases share-capital and reserve funds have been found to be mere book-adjustments. Reserve funds have been created without adequate provision for bad and doubtful debts funds and such other funds and in all such cases, reserve funds should be taken at a discount. In 1949-50 bad debts funds amounted to Rs. 94.85 lakhs as against total bad and doubtful debts of Rs. 132.53 lakhs.

1 Assistant Registrar of Co-operative Societies: Annual Report on the working of the Co-operative Societies, Delhi, for the year ending 30th June, 1951 (typescript), p.8.
this being the result because Bihar and Hyderabad had large amount of bad and doubtful debts without practically any reserves against such liabilities and thus accounting for the overall deficit of bad debts reserve against bad debt outstandings. Where there are decent profits, it should be the first duty of central banks to provide adequately for bad and doubtful debts, and such other contingencies. As a policy, as long as the reserve funds do not equal the paid-up share capital at least 1/3 of the profits should be credited to the reserve fund and after that 1/2 of the net profits should be carried to the reserve funds. East Punjab, Delhi, Bhopal, Ajmer, Orissa and West Bengal have well-provided for bad debts reserve. In Delhi, the Delhi Provincial Central Cooperative Bank Ltd., which is the only central credit institution in that circle, had in 1950-1 a suspense interest account standing at Rs. 0.60 lakhs providing for a more than adequate cover against interest dues from D and under liquidation societies which stood at Rs. 0.55 lakhs.

Opinions differ regarding the use of share-capital and reserve of central banks. There is no harm using the share-capital and reserve funds of central banks as their working capital provided they are conducted on sound lines; otherwise, central banks may run the danger of finding their assets (share-capital and reserves) frozen in an economic distress as had happened during the great depression. The 13th Conference of Registrars held that the reserve funds of both the central banks and the provincial banks should be invested outside the movement in unencumbered trustee securities with the approval of the Registrar, other than
mortgages of immovable property. Various Co-operative Enquiry Committees appointed during the twenties of this century recommended that reserves should be invested in gilt-edged securities and not in any other profitable but risky outlet. Investment in gilt-edged securities by the central banks will constitute a nucleus of fund to provide for some possible or estimated loss on the realisation of certain assets or in respect of pending assets.

Since the central banks have in recent years taken to financing the manifold activities of their affiliated societies, it should not be considered objectionable if those of them who are financially sound may use their share-capital and reserves as working capital, for, it will come to the same whether they invest their reserves and share-capital in provincial co-operative bank as readily realisable assets to facilitate mobilisation of their resources or they are used as their own working capital. The Nanavati Committee disapproved the investments of reserves and share-capital outside the movement until the needs of the movement had been met. The reserve funds and share-capital are, after all, a security against emergency and should therefore be not risked unnecessarily. The investment of these funds in other banks and societies has proved to be a dangerous practice, especially as had happened during the depression. To invest resources outside their own working capital means loss of interest on funds, greater outside

borrowing at higher interest rates and less funds for their own business activities. A cautious use of the reserve funds as working capital in a well-conducted central bank may be the best alternative under the present circumstances when the demand for funds to finance the non-credit activities is the greatest. In Madras and M.P., the share-capital and reserves of central banks are invested in the provincial co-operative banks while in Delhi and the Punjab central banks invest these funds in gilt-edged securities.

Opinions differ as to the utilisation of reserve funds of central banks. It has been held by most of the Co-operative Enquiry Committees appointed in various provinces that the reserves should as a matter of co-operative principle and way must be invested in Government securities as a safe investment and cover for liquid resources. Some co-operators are of the opinion that reserves should be kept with the provincial bank. Whether the reserve funds of central banks are kept with the provincial banks or in Government securities they are likely to earn less interest than if they are utilised by the central banks in their own business for loan operations. Whether the reserve funds are invested in the provincial bank or are kept with the central banks for their business, it is one and the same thing so long as they are to be utilised for the co-operative movement; better it is, if central banks are permitted to use their reserve funds in their own business, for, that will mean they have to borrow less from outside agencies at higher interest rates, greater independence financially and
in general management and reduced lending interest rates to the primary credit societies. In Punjab and Balchi reserve funds of central banks have been mostly invested in Government securities.

State assists central banks and unions in the form of loans and subsidies. State Governments in Bihar, Madras, Madhya Pradesh and Jammu and Kashmir have financed central banks under their rehabilitation and re-organisation schemes to meet deficits in working expenses. In Bombay, the State has, under the Scheme of Integrated Agricultural Finance agreed to grant subsidies, contribute to share-capital and subsidise towards the management cost to special central banks working in co-operatively underdeveloped areas. In Madras, the State has subsidised the conversion schemes of rural credit societies into multipurpose societies undertaken by central banks, for intensive supervision of affiliated societies and to enable the affiliated societies to provide loans at cheaper rates to the agriculturists - members in certain districts.

In 1949-50 deposits received by central banks from individuals (and other sources save from co-operative banks, semi-Government and Government) amounted to Rs. 2340.37 lakhs for the country as a whole forming 42 per cent of the total working capital of these banks which was Rs. 4987.34 lakhs. The amount of deposits attracted by central banks from

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individuals is an index of the confidence reposed by the public in their general working and management. A striking contrast is noticeable in the amount of deposits attracted by central banks in various States, depending upon varying circumstances. Individual deposits of central banks in 1949-50 to their total working capital formed 78 per cent in Rajasthan, 69 per cent in Travancore-Cochin, 62.5 per cent in Bombay, West Bengal and Madhya Pradesh; while the percentage was as low as 0.6 per cent in Bhopal and 0.035 per cent in Mysore.

Central banks also receive deposits from semi-public institutions such as the municipalities, district local boards, school boards, public trusts etc. Since the second World War deposits of central banks have considerably increased due to inflated incomes of agriculturists on account of high agricultural prices and land and formed 70.2 per cent of the total working capital of these banks in 1949-50. Taking into consideration the problem of financing the manifold non-credit activities undertaken by the rural credit societies, the deposits attracted by these banks are not sufficient to meet those requirements.

Some States like the Punjab and Delhi have central banks which can raise deposits at as low rates of interest as 2 per cent. There is yet ample scope to mobilise rural funds by educating the country people to invest the funds in co-operative institutions instead of in the purchase of bullion, ornaments or high-priced lands. By introducing various thrift schemes, thrift day, multi-colour certificates of small denominations, arranging for musical savings groups, sports
functions, dramatics, bhajans and such other cultural activities to open out avenues for small savers and to attract deposits, central banks can tap up funds from rural areas. Higher interest rates may be offered to members of societies on their deposits. Magic lanterns, film slides etc. may be demonstrated to village people informing them the value of thrift and small savings. They may be persuaded to cultivate a habit of regular saving and depositing to the co-operative banks. Saving boxes may be put where even the smallest denominations - coins one anna or two-anna pieces may be dropped and returnable on demand. Hitherto, only stray attempts have been made in Bombay, Travancore-Cochin and Madras to popularise the habit of thrift and depositing money with co-operative banks. Bombay central banks have in some areas been able to collect good sums by the introduction of compulsory deposit system as the "Bhishi" system prevalent in Kolhapur District. In Travancore-Cochin thrift certificate and provident fund schemes have been introduced. Madras central banks have also encouraged thrift deposits. Larger the deposits, the greater the facilities to get funds from outside because borrowing limits of central banks will be relaxed in proportion to the increase in owned funds. Again, the central banks will have to approach less to outside financing agencies for funds to distribute to the primaries for their promoting varied activities such as financing of cottage industries, distribution of civil supply, essential goods and agricultural requirements and financing of various Rural Development Schemes. The age of central banks flooded with unwanted funds is replaced by 1 Reserve Bank of India: Review of the Co-operative Movement in India for 1948-50, 1952, op cit, p.24.
unprecedented demand for funds from primary credit societies for financing numerous non-credit activities. This is evident from the fact that despite increased deposits, central banks had to resort to provincial co-operative banks for funds to finance the activities of primaries and that deposits have not kept pace with the increase in demand for funds in 1949-50. The only remedy to meet the increasing demand for funds is to attract at competitive rates as much deposits as possible, to build up large owned funds and working capital by self-help and not relying upon the external finance.

In 1949-50 the borrowings of central banks formed 13.6 per cent of their total working capital and amounted to Rs. 6.8 crores out of which Rs. 5.64 crores or 80 per cent of the total borrowings came from co-operative banks alone. Other important sources of borrowings for these banks are the Reserve Bank and the State Governments while funds raised by issue of redeemable debentures and included under "other sources" in the Reserve Bank's Statistical Statements of the working of these co-operative institutions figure very small. Due to central banks' financing the procurement and distribution of foodgrains and assisting the Government in the Grow More Food Campaign in Madras the borrowing limits of some of the central banks in Madras in 1949-50 were raised from 12 to 20 times their paid-up share capital and statutory reserves. In Bombay also, the Registrar was compelled during 1946-48 to relax the borrowing limits of central banks to meet the increased demand for funds from primary credit societies which had taken to distribution of cloth, civil supply and agricultural and domestic needs of members.
During the second World War due to high prices of agricultural produce and lands, the agriculturists not only paid their debts to the full but, also deposited considerable amount of funds with co-operative institutions with the result that the central banks in the absence of any fresh demands for loans found themselves flooded with enormous funds without a profitable outlet. As a consequence, some of the central banks in many States invested their funds in commercial banking activities, advancing loans to individual traders and merchants and some advanced funds for long term credit, leaving aside the co-operative principles of investing funds in co-operative channels. Immediately after that war, there was a reversal of the trend so far as the demand for funds was concerned due to central banks' financing numerous non-credit activities undertaken by the primary credit societies in their respective areas. The demand for funds went on increasing so much so that the central banks were forced to borrow from outside financial agencies. All this time central banks in Bombay and Madhya Pradesh advanced considerable sums to individuals against bullion, agricultural and industrial produce, raw materials, mortgage urban property etc. Rajasthan, Madhya Bharat and Himachal Pradesh central banks also advanced huge sums to individuals. Instead of advancing to individuals and taking to commercial banking activities, these banks could have reduced their rates to primary societies, contributed to medical relief, promoted education, rural welfare and such other social activities through co-operative primary societies thereby helping the villagers to live a better life.
Since 1947 however, loan transactions of central banks are overwhelmingly with their affiliated societies; the percentages of advances, recoveries and outstandings against societies to the respective totals being 89, 89 and 90 respectively in 1949-50. Even to-day, despite the fact that primary societies have demanded so much funds to finance their activities and as a consequence these banks have to borrow from apex banks and other sources, some of them have, in many States, particularly in Bombay, Madhya Pradesh, Madhya Bharat and Himachal Pradesh advanced large sums to individuals which is neither co-operative in principle nor justifiable when co-operative credit societies in rural areas are starving of sufficient funds to finance their activities.

Where there are surplus funds after having met with all the needs of primary credit societies, individual loans may be sanctioned by central banks against real security after careful scrutiny. In this connection the Reserve Bank rightly remarked about the commercial banking activities of co-operative banks that "as a temporary expedient it may be permitted, but it should be the endeavour of co-operative institutions to explore further avenues of investment in exclusively co-operative fields for which there exist ample scope to-day." In U.P., due to the New Development Plan, the district central banks could not provide adequate cheap finance even for ordinary...

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credit needs of the primary societies, not to speak of financing other non-credit activities. It should be kept constantly before mind that the prosperity of central banks depends upon the prosperity of primary credit societies. In the co-operative picture after all, the prosperity of the primaries which form the foundation of the superstructure has the import while central banks and such other institutions are merely accessories to these. At present as the primary societies are incapable to finance their requirements, it is the duty of central banks to give their foremost attention to the needs of these societies and until that is successfully done, the superstructure floats in thin air. It is beyond doubt that financing of primary credit societies is less lucrative and prospective from the viewpoint of earnings as compared to returns from funds advanced to urban areas or individuals and non-members. A co-operative system is not a profit-making system but created simply to finance the indebted weak and generally to raise the moral and material standards of life of those living in rural areas. Unless central banks help the primary societies in this task of raising the moral and material standards of the members of their affiliated societies, there is no assurance that the movement will emerge from the morass into which it has fallen, or having emerged, will not again relapse into a similar state.

It is the foremost duty of central banks to finance, guide and look to the needs of the primary societies for which they have been created. Their attitude towards primaries should not be one of indifference but should be sympathetic, inspiring and educative. They should instil in them the spirit of self-help and mutual help which is the sine qua non of the movement.

Financing of rural credit societies for their non-cash activities was prominent in Madras and Bombay, to a certain extent in U.P under its New Development Plan, in M.P. through its regional agricultural associations. Bihar, Orissa, Madhya Pradesh, West Bengal and the Punjab also interested themselves and assisted primary credit societies in such activities on a yet smaller scale. As we have seen, central banks took to commercial banking activities mostly in Bombay, M.P. and Madhya Bharat. Some central banks in the South advanced loans to primaries for financing the construction of houses in urban areas, promotion of cottage industries, purchases of bullocks, digging of wells, minor repairs and improvements of land in rural areas.

As the deposits received by central banks from various sources are for short duration, they should at the most restrict the period of loans for repayment to two to three years. Long-term lending with short-term deposits will lead to the result that there will be a rush on the central bank which not only will lower the prestige of the particular central bank but will affect adversely the whole movement.
Some of the central banks in the South advance loans for construction of houses, minor repairs of land, digging of wells, purchase of bullocks implements etc., which is not only non-co-operative but also unjustifiable because such practices mean depriving the primary credit societies of their financial needs and land-mortgage banks (which are especially organised for purposes of long-term lending) or their business who are already short of such business these days. The proportion of loans granted for long-term purposes though ranks negligible to the total outstandings, it should become completely extinct. Risk is all the more great in advancing for long-term purposes since central banks have not the necessary technical knowledge and staff to assess the economic value of the security against which loans are advanced. In this connection the Reserve Bank rightly remarked that as far as possible advances should be restricted to such sums for short-term finance only as could reasonably be expected to be repaid out of the harvest or for one year and all others for long periods should be ruled out as beyond the sphere of such co-operatives.

The amount of loans granted to societies depends usually upon the general assets offered as security and owned capital and to individuals upon the security they offer. The main consideration is not so much the security offered as the proper valuation of the assets against which loans are granted on cash-credit system so that the borrowers can draw the funds as and when required, the interest on the loans being

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calculated from the date from which sums are drawn. In Madras
cash credits are allowed under "post-sanctioned loans" scheme
to primaries for facilitating the disbursements of loans without
delay, the amounts advanced being subject to approval subsequently:

For its financial safety a central bank should assess
the credit of an affiliated society after re-examining and testing
the society's own estimate of its borrowing power, the data on
which the society has fixed the normal credit of its members
and considering the society's needs and its existing funds.
The central bank should inquire for what purpose a loan is
required by the society, when and in what instalments the borrowing
society expects to repay the loans applied for, whether the
repayments will be made out of earnings or out of fresh loans
and may refuse a loan for any purpose which the management
considers to be unsound or objectionable. It may also with
the help of its supervisory staff or through the supervising
unions wherever such unions exist examine the working of the
affiliated societies, the way in which loans are utilised and
if it finds misapplication of loans, may recall them before
serious consequences follow. It is also necessary for central
banks to examine pretty well the reserves and other assets of
borrowers, to make an exact assessment of bad and doubtful
debts and the creation of corresponding reserves so that any
assets turning out bad or of doubtful recovery or book
adjustments would not unsettle the equilibrium of an institution.

1 Reserve Bank of India: Review of the Cooperative Movement in
India, 1948-50, 1952 op cit, p.21
2 Report of the Committee on Cooperation, Govt. of Mysore, Mysore,
1938, op cit, p.93.
3 Government of India: Report of the Banking Enquiry Committee
4 Reserve Bank of India: Review of the Cooperative Movement in
India, 1948-50, 1952, loc cit, p.25
The Madras Committee on Co-operation were of the opinion and rightly so, that central banks should after examination of their accounts declare bad and doubtful debts before annual net profits are announced. This will have the effect of reducing losses by enabling central banks to provide for bad and doubtful debts before profits are distributed.

Usually, central banks so adjust their credit policy that the period of repayment of loans synchronised with the period for which deposits are attracted. But it is possible that sometimes there arises a discrepancy in this movement of incommings and outgoings of funds and when such developments take place, fluid resources maintained by the central banks correct the disparity between the deposits repaid during a given period of time. Unless such a regulatory process is provided, serious financial stringency may occur leading the movement to a wreckage. It may for this reason be noted that to avoid any financial stringency or trouble, fresh loans should be granted only from new deposits attracted.

Regarding the maintenance of fluid resources by central banks, there is no uniform practice in various States, some keeping less resources in their enthusiasm to finance the non-credit activities undertaken by their affiliated societies, commercial banking activities and long-term finance; while others have more fluid resources than necessary perhaps due to lack of sufficient business as the Punjab and Delhi central banks. If fluid resources are kept much above normal require -ments there will be higher management cost due to loss of

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earnings on liquid resources, consequently higher lending interest rates to societies and ultimately to the agriculturists. If they are much below normal and in case there is a rush for withdrawal of funds with the banks' inability to meet the same, there is the danger of losing the financial prestige of the banks and the movement as a whole. The standard of fluid resources to be maintained by a central bank depends upon the extent to which deposits are held, including their nature, amounts and periods of maturity; however, they should suffice to meet its own requirements as well as of its primaries and be subject to periodical readjustment according to changing financial transactions, conditions and circumstances. Fluid resources may be maintained in the shape of cash balances on hand, undrawn cash credit account with the provincial co-operative bank, securities kept in the provincial bank or Government promissory notes. As regards standards of liquid assets to be maintained by central banks, the Reserve Bank has directed that cash, cheques in course of collections and balances with other banks should form 10 per cent; investment in Government securities and treasury bills 30 to 40 per cent and loans and advances 50 to 55 per cent of deposits. These liquidity rules will be highly uneconomic for central banks working in areas where business is much less and in economically backward tracts. Fluid resources may be maintained at 30 per cent of fixed deposits, 45 per cent of savings deposits and 60 per cent of current deposits with necessary adjustments

1 Government of Mysore: Report of the Committee on Co-operation in Mysore, 1936, op cit, p. 118
according to dynamic business fluctuations.

The interest rates charged by central banks to primaries vary on a definite system with reference to the character of the borrowing society, the security offered, the period and amount of loans, local conditions such as the agricultural season, accessibility to the money market and on what the central banks have to pay for their borrowings. With necessary provisions for reserves, management and incidental expenses and a reasonable profit, interest rates should be kept at a minimum so that the societies can pass on the benefit of lower interest rates to the ultimate borrowers. Though interest rates have definitely come down from what they were before the depression, there is yet ample room to reduce the lending rates. With certain exceptions as in the case of central banks in Madras, Bombay Jammu and Kashmir interest rates to societies are reasonable and usually range between 4 to 7½ per cent. The Punjab, Travancore-Cochin, and Orissa central banks lend to their societies at 5 to 7 per cent. Interest rates charged by central banks to their affiliates are very high in West Bengal, Himachal Pradesh and U.P. and vary from 9 to 12 per cent. In Madhya Pradesh, Bihar and Madhya Bharat the upper limit of interest rates at which funds are advanced by central banks is above 10 per cent. Higher interest rates in these States are due to inaccessibility to the money market in an easy way and backward economic development: while,

1 Reserve Bank of India: Statistical Statements, relating to the Co-operative Movement in India, for the year 1945-46, op cit, p. II.
in the case of West Bengal and the Punjab it is due to their blocked capital in East Bengal and West Punjab respectively. Central banks will do well to advance funds to their societies at concessional rates to the extent the latter have deposited their reserve funds with the former.

A central bank is not expected to provide directly the day to day financial needs of primary societies but has to create monetary conditions under which there will be adequate facilities for all those seeking credit for legitimate purposes or having funds to invest. Central banks have since the war assisted the rural credit societies in the distribution of seeds, manures, implements, cement, iron etc. to the farmers, domestic and other essential goods to the rural people in general, in the development of rural and cottage industries and in marketing the agricultural produce. The central banks also help the co-operative department in the organisation and development of co-operative rural and multipurpose societies and in reorganising and converting credit societies into multipurpose societies. Without intervening in their autonomy, central banks supervise, inspect, guide and help the societies in every possible way. The central banks have educated the members of co-operative societies in rural welfare, co-operative principles and practice; created a co-operative spirit and a sense of working together and imbued in them the virtues of self help and mutual help which are the sine qua non of co-operation. However, on the whole, they have not done what they should do for the agriculturists - spread a knowledge of

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1 Reserve Bank of India: Statutory Report under Section 33(1) of the Reserve Bank of India Act, 1934, op cit, p.35
improved techniques in agricultural production, demonstrated the use of first class seeds, manures and up-to-date implements.

Central banks have recently added commercial banking activities among their numerous functions. The Macrahan Committee on Cooperation were against the assumption of commercial banking activities by central banks on the ground that it will mean greater fluid resources and less margin of profits for central banks and also because these banks may not have the necessary technical knowledge and staff to deal with intricate problems arising out of such business. In Madhya Pradesh before the second World War, commercial banking and opening of current accounts were as a rule not permitted for the simple reason that the staff do not have the expert knowledge of banking to handle such accounts. Despite the unfavourable views of various co-operative committees regarding the assumption of commercial business by central banks, Bombay and Madras and to a lesser extent M.P., Rajasthan and Madhya Bharat central banks have undertaken such business. Bombay and Madras central banks accept deposits of various types, current, savings, recurring and fixed; collect bills, cheques, bundles, dividend warrants etc., offer safe custody of valuables, rediscount government and co-operative paper, advance loans to individuals against bullion, fixed deposits, urban property...


such as houses, agricultural and industrial produce and against stock. In Bombay, central banks have developed large commercial business, particularly of making advances against agricultural and industrial produce and raw materials. To facilitate the development of this business some of them have introduced nominal membership for their clients without having any voice in the management of these central banks. They act as agents of joint-stock banks where the latter have no branch and transmit funds on behalf of these commercial banks besides collection of demand bills, cheques and the sale of demand drafts, without coming into conflict with urban banks, if any. Some of the central banks in Madras collect bills, transfer or remit funds by issuing cheques on other banks, collect insurance premia on behalf of insurance companies, grant loans or cash-credit facilities against debentures of the Central Land Mortgage Bank, government securities and purchase and sell gilt-edged securities. The Madras Committee on co-operation recommended that central banks should issue negotiable warehouse receipts under their own or government guarantee to serve as useful instruments to finance the holding up of stock with a view to orderly marketing; and proposed the construction of godowns with government subsidies and loans to central banks as a preliminary step to the creation and popularisation of warehouse certificates.

Central banks in Madras assisted co-operative societies which were entrusted with distribution work of civil supplies and agricultural requirements; procurement of

foodgrains and promotion of Grow More Food Campaign through the seed-multiplication schemes, supply of manures and agricultural implements and financing cultivation. Nilgiris and Coimbatore central co-operative banks devoted attention to medical relief and maintenance of a library while Tiruchirappalli District Co-operative Central Bank interested itself in the promotion of cottage industries. Central banks also helped consumers' stores, weavers' societies and agricultural marketing societies. Fair-price shops have been opened in Bombay and Madras for the sale of consumers' goods with the financial aid of central banks. Bombay central banks have also not been backward in giving help to their affiliates in distribution work of civil supplies and agricultural requirements and also finance adjusted agricultural debtors under the scheme of "Integrated Agricultural Finance". To a lesser extent, non-credit activities of co-operatives have been financed by central banks in U.P., M.P., the Punjab, West Bengal, Bihar and Orissa. Travancore and Cochin central banks have financed housing schemes to relieve housing shortage in urban areas. Orissa central banks have purchased and loaned on hire or sold cane-crushers to their members and rented godowns for storage of agricultural produce to societies for their members' produce.

The Reserve Bank of India emphasised the need for close contact and mutual understanding between co-operative and joint stock banks for better use by co-operative banks of first

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class commercial banks for the investment of their surplus funds as well as for getting credit from them on government paper, and for utilisation of the services of the co-operative banks by the commercial banks for the collections of bills etc. in places where the latter have no branches of their own.

It has been held in some banking circles that in the matter of attracting deposits and inland exchange business central banks with the help of Government assistance, prestige concessions and special privileges ( exemption from certain duties and fees, free transfer of fund ) compete unfairly with the commercial banks. To this, it may be replied that co-operative central banks with share-capital and reserve of Rs.1 lac and over are few in number as compared with commercial banks; that they mostly draw their deposits from members who are small agriculturists and people of limited means living in semi-urban areas while commercial banks draw deposits from businessmen, traders and industrialists; that concessions and privileges enjoyed by co-operative central banks are withdrawn where they deal in inland exchange business as in Bombay. Therefore, the commercial banks have little ground to complain about any serious or unfair competition from central banks. Again, if the increase in capital, reserves and in other loan operations etc., of the commercial banks and central co-operative banks are compared, it will be evident that central banks are far behind the commercial banks in general progress. Co-operative central banks cannot compete the well-organised commercial

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1 Reserve Bank of India: Statutory Report, under Section 55(i) of the Reserve Bank of India Act, 1934, loc cit, pp. 22, 23.
banks because of their comparatively inadequate staff and lack of advanced and technical banking knowledge. They have not the same rediscounting facilities as the commercial banks because notes of their primaries which are not easily negotiable and marketable, their turnover of capital is slow and small and they get rediscount facilities from the Reserve Bank only under certain strict regulations. It should be noted that central banks are rendering a public service by cheapening the cost of transfer of funds from the business centre to the rural areas where no other banking agencies are available and vice versa. It is only if some concessional treatment is granted that these banks will be able to extend their operations in centres of agricultural trade, develop banking facilities in rural areas and spread the knowledge and use of cheques and other instruments of credit among the rural population. It is not possible for these banks to develop to full capacity against the forces of modern competition from organised commercial banks without special concessions and privileges from Government and the Reserve Bank because on the whole their dealings with agricultural industry are not sufficiently paying to go without such help.

In conclusion, we may note it with pleasure that relations between the co-operative central banks and the commercial joint stock banks are very cordial. Government will do well if they grant subsidies to those commercial banks which take up rural financing without competing or encroaching upon the

business of co-operative banks' business in case they incur losses and such an inducement to commercial banks will mean additional finance to rural areas and agricultural industry as a whole.

The general management of a central bank vests in a board of directors in most cases elected annually on the basis of one member, one vote at the general meeting which is the supreme authority in this as in other types of co-operative institutions. The Board consists of representatives of affiliated societies and of individual shareholders through the former have a predominant voice in the management because of their greater representation. Sometimes, non-official members who have local and special knowledge of co-operation, have contributed to the growth of the movement and who do not like to face the vagaries of elections are co-opted on the board of management, without any right to vote.

The Board of directors and particularly the executive committee attend to the day to day administration of the bank; sanction applications for loans from affiliated societies; lay down terms of acceptance of deposits; ensure supervision over societies through supervising staff, supervising and administrative committees as in Madras or through the local supervising unions and have general control over the credit policy and administration of the bank.

Electioneering abuses have not been uncommon in the election of the members of the board of management. Communal considerations have a force in such elections as in the Punjab and Barar in the past. Sometimes, elections are  

contested on community considerations as in the southern parts of the country. Candidates promise favours if elected and if defeated try to embarrass the working of the bank by persuading depositors to withdraw their deposits. There are cases in which by sheer influence incompetent and irresponsible people are elected on the board of management and lead the bank to bankruptcy.

In G.P. and Berar, Bihar and Orissa, Assam and Travancore, in the past, the inefficient running of central banks has led to their supersession by the Registrar or his nominees. Such measures are adopted to rehabilitate these banks on a sound financial position and as soon as they are restored to normalcy they are entrusted to competent managing committees. In Mysore, their running was so uneconomical that the Government was compelled to achieve in their winding up and re-organise anew. As a result, there were only three such banks in Mysore in 1949-50.

As in the case of primary societies, the cost of management of central banks varies from State to State according to the functions they assume and their general efficiency. In 1949-50 for the country as a whole, the average cost of the management of central banks was 1.6 per cent of their working capital or Rs. 15,800 per bank. Statewise, lowest management cost of central banks has been noted in the Punjab with 0.75 per cent of their total working capital (despite their blocked capital in West Punjab) among the bigger States and in Bhopal, Delhi, Travancore-Cochin and Pepsu among the small States with their management cost.
forming 0.3, 0.45, 0.6 and 0.75 per cent of their total working capital respectively. This low cost of operation in these States may be either the result of highly efficient management or of considerable voluntary service. In Bihar, the management cost of these banks is the highest in the country and forms 9.75 per cent of their total working capital: this is probably due to very low working capital of central banks in the State and on the whole their uneconomic and unsatisfactory working with very low reserves to meet unexpected losses. In Bombay and Madras the management cost represents around 1.5 per cent of their working capital and this may be considered satisfactory in view of the fact that central banks in these areas finance numerous non-activities of their affiliates.

At one time, in the early stages of the movement, there was no paid staff in central banks and the directors with the assistance of the Registrar managed the working of these banks. But now, with their increased activities and greater area of operation, qualified and competent personnel on the banks' service is a bad necessity and this can be achieved by making the banks' service sufficiently attractive by offering to the employees suitable prospects of promotion, introduction of provident fund and bonus schemes, stability of services and adequate remuneration in accordance with the responsibility entrusted to them. At least a manager, a secretary, an accountant, a treasurer and clerks of a central bank must be paid well to ensure better service. Specialised
training in co-operative banking and in general methods and principles of co-operation and refreshery classes and departmental examinations may be conducted for the staff of the banks. Money spent on adequate and competent staff will more than repay the cost incurred in their maintenance by bringing greater returns in the form of economic and efficient management.

Central banks and the movement as a whole passed through a very critical stage during the depression. In Assam co-operative societies defaulted to their central financing agencies as a result of the indifference of the members of primary societies to repay their loans to the societies. In Bengal shrinkage in the repaying capacity of the borrowers due to disastrous fall in the price of agricultural produce and the long-term investment of funds made the agricultural societies default in payment to central banks. Central banks granted loans without proper scrutiny, relying more on personal security rather than on real security and as their reserves were invested in their own working capital the assets were frozen. The deterioration in collections of central banks adversely affected their position with regard to the fluid resources and their budgetary equilibrium. In Orissa liberal extension of credit facilities during the boom period, reckless borrowing by members both in the golas and in credit societies without adequate supervision and inspection and the effects of depression resulting in abnormal fall in the price of paddy accentuated
difficulties. In the Punjab due to overfinancing, extensions and concessions in repayment of loans caused grave concern during the depression. In C.P. and Berar the central banks and societies were left with unsold lands and created difficulties which defied all solution. In Bihar, C.P., and Berar overdue percentage to the total outstandings was considerably high and so also interest overdue and bad and doubtful debts. In Baroda overlapping finance, advance of loans beyond the repaying capacity and for unproductive purposes, sole reliance on property security, bad harvests, and low prices put the societies and banks in trouble during the depression. In Ajaigarh-Merwara recoveries had become almost impossible; in Mysore repaying capacity completely disappeared. So was the case in U.P. to a certain extent. Indore central banks had to treat frozen overdue as long-term loans, old debts had to be scaled down to recoverable limit within a period of 20 years, bad and doubtful debts had to be written off as in C.P. and Berar and re-organisation and reconstruction were inevitable as in Travancore, Bihar and Gwalior.

Numerous measures such as the appointment of special staff for re-organisation and reconstruction were taken by various provinces. Instructions were issued to co-operative banks to invest reserve funds separately, instalments were fixed at a lower level to enable the debtors to repay the loans and within the repaying capacity of the borrowers. Wilful defaulters were called upon to mortgage their property as collateral. Suitable extensions were granted to those defaulters who wanted to pay. Overdues and current interest against members and societies were adjusted at a lower level and detailed inquiries were undertaken to find
out precisely the bad and doubtful debts of societies and banks, the repaying capacity of the borrowers and to weed out the undesirable and weak ones by coercive action or otherwise. At some places liberal extensions for repayment of principal were given and collections of interest were either postponed or written off.

The Reserve Bank of India laid down sound banking principles for the efficient conduct of provincial and central co-operative banks to come out successfully from the evil effects of depression and to stabilise their financial position. It suggested "the distribution of assets so as to maintain adequate cash and fluid resources; the maintenance of an adequate margin between borrowing and lending rates so as to build up strong reserves; the proper treatment of unrealised interest; proper scrutiny of and provision for bad and doubtful debts; the confining of business generally to short-term loans; separate indication of long-term loans and overdues of principal and interest and, in general, proper and accurate presentation of the affairs of the bank in the balance sheet." 1

With the advent of the second World War and the consequent rise in agricultural prices and inflated incomes of agriculturists, repayments of loans became brisk in every part of the country to credit societies and from them to

1 Reserve Bank of India: Review of the Co-operative Movement in India, 1939-40, (1941), op cit, p.31
central banks, overdues were much less and demand for fresh
loans and extensions became negligible. The movement got
a new lease of life from the precipitous fall into which it
was almost submerged. The incomes and profits of central
banks and their general financial conditions improved
considerably due to their increased income from their
assisting the primary credit societies in financing the
non-credit activities in rural areas.

Despite this improved condition in regard to overdues
position in various States and the bad experience of the
effects of depression, central banks in a majority of States
have not sufficiently provided for bad and doubtful debts
reserves. In 1949-50 out of a total amount of Rs. 172.98
lakhs as interest realisable on loans advanced by central
banks, interest overdues amounted to as much as Rs. 73.43
lakhs forming 42.5 per cent of the total interest receivable.
The interest over overdues against interest available were
highest in Bhopal, Ajmer, West Bengal and Madhya Bharat —
about 50 per cent and over. During the same year for the
country as a whole overdues formed 10 per cent of the total
outstandings and bad and doubtful debts about 5 per cent of
the total outstandings of these banks. Against the total
bad and doubtful debts of Rs. 1.32 crores only Rs. 0.95
crores were the reserves for bad and doubtful debts for all
central banks of the country and Hyderabad central banks
having no bad debts-reserve had Rs. 31.54 lakhs of bad and
doubtful debts. Delhi, Punjab, Bombay Madras, Madhya Pradesh,
Rajasthan, Crissa, Pepsu, Ajmer and Bhopal have created
bad debts reserve, not quite unsatisfactory looking to their overdues position. It is absolutely necessary that bad debts reserve should at least be sufficient to cover bad and doubtful debts and general reserves in aggregate should be sufficient to cover overdues position as a whole.

Where the annual audit of central banks is not undertaken by co-operative departmental officers, professional auditors from a panel of auditors appointed with the consent of the Registrar audit the accounts of central co-operative banks. Where non-official auditors audit these banks, a test audit by the departmental staff is undertaken. Checks to inefficiency of central banks come in the form of their accounts being audited by the co-operative department or otherwise and the Reserve Bank’s power to examine the balance-sheets of these banks. Usually an auditor of a central bank is expected not only to audit the accounts but also to examine all overdues debts and inquire into all the circumstances which determine the general position of the central bank.

Past experience and especially of the depression demand that central banks require better supervision over their working by some federal agency as the State Co-operative bank. Since the State co-operative bank lends to central banks they should have the same right of supervision and inspection over the general working of central banks as the latter have over the primary credit societies. At present, the central banks only send reports of their working to the State banks and their estimates of credit required. The Provincial bank should have
every right to examine, supervise and inspect minutely the affairs and dealings of central banks and to see that suggestions given by it are carried out by the central banks with alacrity. The State co-operative bank in comparison to any co-operative or official agency is in a better position to judge, supervise and guide the central banks since its dealings are mostly with these banks. If the State co-operative bank cannot take up the supervisory functions over central banks, official control over the latter’s working will be the inevitable concomitant. In Bihar the State co-operative bank supervises central banks and in Bombay the Agricultural Credit Organisation Committee suggested that a re-organised provincial co-operative bank would be the most suitable agency to supervise and guide central banks. The present supervision staff is inadequate and therefore the need for a well-equipped personnel on the official department for proper supervision of central banks. The initial expenditure incurred in increased number of staff members will check irregularities in the working of central banks and bring in the long run greater benefit than otherwise. In the absence of proper supervision over the working of central banks these banks during the depression had to struggle for existence in Bihar, Orissa, C.P. and Berar and many other States and had not the provincial governments come to their rescue they would have utterly collapsed. They were also responsible to a considerable extent for the ruin of many rural credit societies since they
could not repay the deposits of the latter during the economic distress. All these necessitate an early organisation of a supervising agency to look after the working of central banks in the form of a State co-operative bank or through the department. The central banks may enjoy self-rule in general but that does not mean that autonomy should be exercised at the cost of sound banking principles.

The members of the co-operative department or of the management board of the State co-operative bank should periodically visit and inspect the central banks—take inspection notes and circulate them on to State co-operative banks and other central banks in the State for information. In some cases, the manager of a member of the directorate of the State co-operative bank visits central bank for inspection but such examples are few and far between. A regular inspecting agency is yet to be evolved.

In Bombay since 1939-40 there is a Co-operative Banks' Association which includes among its objects the co-ordination of the work of central banks (and also urban banks), training the staff of member banks, regulation of exchange business, looking to the maintenance of adequate fluid resources, arrangement for the inspection of member banks and examination of statements of the financial position of member banks. On its management are represented the affiliated central financing agencies, urban banks and other

non-credit societies with a share-capital of Rs. 20,000 and over. It is a recognised non-official agency by the Co-operative Department in all important matters that relate to the well-being of those banks and welfare of the movement as a whole. As this Association has no right to force its directives upon the affiliated institutions and because it works in a consultative capacity, advising on request on matters of policy and procedure, it lacks that forcefulness of supervision, control and management over affiliated co-operative institutions which is necessary to place the latter on a sound footing without at the same time superseding their internal autonomy.

The Indian Co-operative Societies' Act, 1912 requires central banks to carry not less than one-quarter of each year's net profits to the reserve fund. Well managed central banks provide for bad and doubtful debts, building expenses, depreciation etc., and accumulate funds for dividend equalisation and to meet any unforeseen emergency or untoward losses. They may also contribute a fixed percentage of the net profits to common good activities such as to local charities, promotion of education, medical relief, rural welfare and to the advancement of any other object of general public utility. Indulgence in a mischievous practice by some central banks by including among their profits the unrealisable assets and interest outstandings without taking into consideration interest overdue should be strictly dealt with. Profits must not be declared or distributed before providing for bad and doubtful debts, reserves and any other incidental commitments. The practice of declaring more dividends to
popularise the central banks among the shareholders and the public without adequate provision for special and general reserves will in the long run, severely affect the financial position of these banks and the movement as a whole.

As already mentioned above, central banks in general have strengthened their financial position to a considerable extent, particularly in Bombay and Madras and, they have financed not only credit needs of their primaries but also many of their non-credit activities. In U.P., their position is, in general, satisfactory, though, they cannot adequately meet the increased financial needs of even primary societies under the New Development Plan. In the Punjab, despite the adverse effects of partition and large sums of money blocked in West Pakistan at the Provincial Co-operative Bank, Lahore, central banks have not only escaped the financial debacle but have come out successfully and handle distribution of controlled articles as Government agents. In West Bengal where even otherwise conditions were not reported to be good, partition led to further deterioration in central banks' position with their reduced area of operations, divided resources, inadequate staff and frozen assets in East Bengal. With the active State assistance the situation in generally improving. In Madhya Pradesh co-operative banks are re-organised under the new Development and Rehabilitation Schemes; most of the banks have re-paid their dues to the creditors and resumed normal working. In Bihar, under the Rehabilitation Scheme, these banks have with the guidance of the apex bank which is re-organised on the model of the Credit Agricole D' Egypt,
taken to financing the distribution of consumer goods and agricultural requirements. In Orissa, these banks under the Rehabilitation Scheme and with Government support have not yet achieved much worth noting. In Mysore, they are wound up and re-organised, there being three in number in 1949-50. Among other States, they have attained some success in Delhi, Travancore-Cochin, Hyderabad, Madhya Bharat and Jammu and Kashmir. In rest of the States they have not yet made much headway to deserve mention.

It should be the duty of a central bank to guide the affiliated primary societies whenever they go astray and not to interfere in their day-to-day administration. It should inculcate among them the self-confidence of efficient management. A central bank should persuade the members of managing committees of their affiliates to take initiative in the examination of loan applications of their members, in assessment of credit requirements and general financial needs and not to allow societies function as mere forwarding agency. If the managing committee of affiliated societies themselves properly assess the credit needs of members and societies as a whole, much of the time, energy and money spent after checking by central banks will be saved and will also benefit society members by educating them in banking business and co-operative practice and creating self-confidence and enthusiasm to handle themselves.

The duty of a central bank is not to do things permanently for the societies but on the contrary, to teach co-operators and members of the societies to do things for
themselves and to get out as soon as they possibly can. The directorate of central banks should not be wholly drawn from the urban population since in that case, the rural element will be less represented and co-operators from rural areas will not be able to place and express properly their views, problems and difficulties etc., and seek redress of grievances arising out of their peculiar position in scattered localities. Again, some urban directors have not a liking for the rural atmosphere and those without a rural frame of mind usually do not like close touch with rural conditions, problems, etc., and do not endeavour to understand the problems of primary societies and sometimes lack in real knowledge of co-operative principles. In such cases, "the teachers themselves need teaching."

It is imperative that central banks should work as general advisers and as correcting, propaganda and education-imparting bodies to their affiliates. They have not yet given adequate attention to the co-operative and general education of members. Save the excellent intentions of some of the departmental officers and services of rendered by some official and non-official agency, many of the central banks have been accused of lacking in interest and energy, others of placing their interests above those of their primary societies and yet others showing indifference and ignorance towards their affiliates.

The holding of periodical conferences of co-operative central banks to exchange their views and discuss problems

1 H.W. Wolff: Co-operation in India, 1923, loc cit, p.177
arising out of their working and of common interest will be a healthy practice to strengthen their own position. These banks may at such meetings suggest and formulate a uniform policy in the light of their experience of running the banks, specially with regard to the treatment of share-capital and reserves; relations with co-operative banks, joint stock banks and the apex bank; arrangements for cash credits, remittance facilities, savings and current accounts, loan operations to finance adequately the affiliates, training of the staff, their remuneration work and term of service; the education of people in general and in co-operative principles, methods and banking in particular.

From the above account of central banks it may be inferred that save in Bombay and Madras the working of central banks is not fully satisfactory; though at the same time, not desperate. These banks in many States are undergoing a process of reorganisation, rehabilitation and consolidation. With public and government co-operation there is no reason why, central banks and the co-operative banking structure as a whole cannot finance the persons of limited means to a greater extent than now in rural, semi-urban and even urban areas. The rise of local leadership and spread of co-operative education and enterprise from below will strengthen the position of central banks and the financial structure of the movement as a whole to give it its right place in building up a Co-operative Commonwealth.
Table II
Operations of Central Banks and Banking Unions: 1949-50
Source: Reserve Bank of India: Review of the Co-operative Movement in India 1948-50
(Reserve Bank of India, Agricultural Credit Department, Bombay, 1952), p. 189

| 1. Number |  .  .  .  . | 498 |
| (a) Individuals |  .  .  .  . | 90,599 |
| (b) Societies |  .  .  .  . | 99,123 |
| 3. Owned Capital |  .  .  .  . | (Rupees in lakhs) 806.67 |
| (a) Deposits |  .  .  .  . | 3499.97 |
| (b) Other Borrowings |  .  .  .  . | 680.50 |
| 5. Working Capital |  .  .  .  . | 4987.34 |
| 6. Investments |  .  .  .  . | 1314.76 |
| 7. Loans issued during the year: |  .  .  .  . |
| (a) Individuals. |  .  .  .  . | 867.64 |
| (b) Banks and Societies |  .  .  .  . | 6675.84 |
| 8. Loans recovered during the year: |  .  .  .  . |
| (a) Individuals |  .  .  .  . | 823.15 |
| (b) Banks and Societies |  .  .  .  . | 6797.43 |
| 9. Loans outstanding at the close of the year: |  .  .  .  . |
| (a) Individuals |  .  .  .  . | 287.26 |
| (b) Banks and Societies |  .  .  .  . | 2605.11 |
| 10. Overdues |  .  .  .  . | 286.36 |
| 11. Bad and doubtful debts |  .  .  .  . | 132.52 |